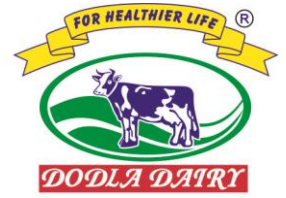


# DODLA DAIRY LIMITED

MILK & MILK PRODUCTS

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Date: 26 October 2023

The General Manager Department of Corporate Services <b>BSE Limited</b> Phiroze Jeejeebhoy Towers Dalai Street, Fort Mumbai-400 001	The Manager Listing Department <b>National Stock Exchanges of India Limited</b> "Exchange Plaza", 5th Floor, Plot No.C/1, G Block Bandra-Kurla Complex Bandra (East), Mumbai 400051.
<b>Scrip Code : 543306</b>	<b>Scrip Code : DODLA</b>

Dear Sir/Madam,

**Sub: Transcript of Q2 FY24 Results Conference Call held on Monday, 23 October 2023.**

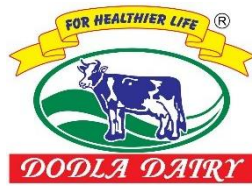
In Continuation to our letter dated 16 October 2023 the Company had organized a Q2 FY24 Results Conference Call with the Investors/ Analysts on Monday, 23 October 2023 at 11:00 Hrs (IST). A copy of Transcript of conference call held with the Investors/ Analysts is enclosed herewith and the same has also been uploaded on the Company's Website at [www.dodladairy.com](http://www.dodladairy.com).

This is for your information and records.

Thanking you,  
Yours Faithfully,  
**For Dodla Dairy Limited**

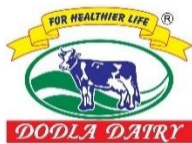
**Surya Prakash M**  
Company Secretary & Compliance Officer

★ An ISO 22000-2005 & 50001 EnMS Certified Company ★



“Dodla Dairy Limited  
Q2 FY'24 Earnings Conference Call”

October 23, 2023



**MANAGEMENT:** **MR. SUNIL REDDY – MANAGING DIRECTOR – DODLA DAIRY LIMITED**  
**MR. B.V.K. REDDY – CHIEF EXECUTIVE OFFICER – DODLA DAIRY LIMITED**  
**MR. MURALI MOHAN RAJU – FINANCIAL CONTROLLER – DODLA DAIRY LIMITED**

**MODERATOR:** **MR. ANIRUDDHA JOSHI – ICICI SECURITIES**



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**Moderator:** Ladies and gentlemen, good day and welcome to the Q2 FY'24 Earnings Conference Call of Dodla Dairy Ltd. hosted by ICICI Securities. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Aniruddha Joshi from ICICI Securities. Thank you and over to you Mr. Joshi.

**Aniruddha Joshi:** Yes, thanks Michelle. On behalf of ICICI Securities, we welcome you all to Q2 FY '24 Results Conference Call of Dodla Dairy Limited. We have with us senior management represented by Mr. Sunil Reddy, Managing Director, Mr. B. V. K. Reddy, CEO, and Mr. Murali Mohan Raju, Finance Controller. I congratulate the management for the excellent set of numbers in Q2 FY '24 and hand over the call for the initial comments, post which we will open the floor for question-and-answer session. Thanks and over to you sir.

**Sunil Reddy:** Thank you very much, Aniruddha. This is Sunil here. Thank you all very much and hello everyone. I welcome you all to Dodla Dairy Q2 and H1FY'24 earnings conference call. Dodla Dairy continues to prudently invest in the supply chain and thereby we are delivering for customer delight and create value to the stakeholders.

The company's revenue grew by 10.4% YoY to INR 7,678 million in Q2 '24. Dodla's value-added products sales continue to display momentum with 13.1% YoY growth at around INR 1,953 million. This is basically going to deeper distribution channel penetration and also the brand recall which has been built up over a period of years.

The company's VAP sales contributed 26.1% to the overall revenue in Q2 FY'24. The company is now geared up for the upcoming fiscal season. We have a robust product portfolio coinciding with the peak flush season that is now going on for the year '23-'24 along with a strong balance sheet. We also continue to invest in sustainability, innovation and some technology initiatives in our business. This is basically aiming at long-term value creation for us as stakeholders.

Now I will just briefly run through the financial highlights for the quarter ended September 30, 2023. Operation revenues, like I said earlier, stood at INR 7,678 million in Q2 FY'24, as compared to INR 6,953 million in Q2 FY '23, registering a growth of 10.4%. The company's domestic business grew by 11.2% YoY to INR 7,155 million, whereas its international business revenues stood at INR 521 million in Q2 FY'24.

EBITDA grew by 19.2% YoY to INR702 million in Q2 FY '24. EBITDA margins expanded by 68 bps YoY to 9.1% owing to lower raw material pricing which is around 118 bps year-on-year. However, employee expenses and other expenses grew by 19 bps YoY and 32 bps YoY, respectively in Q2 FY'24..



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Profit after tax grew by around 10.5% year-on-year at INR 436 million in Q2 FY '24. PAT margin stood at 5.7% in Q2 FY '24. EPS for Q2 FY '24 stood at 7.26 as compared to 6.58 in Q2 FY '24.

Now, talking about our operational highlights, for the quarter ended September 30, 2023, average milk procurement during Q2 FY '24 was at 17 lakh liters per day as compared to 14.3 lakh liters per day in Q2 FY '23. This is registering around an 18.9% YoY growth. Average milk sales during Q2 FY '24 was around 10.9 lakh liters per day.

Our curd sales during Q2 FY '24 was at 309.3 metric tons per day as compared to 292.4 metric tons per day in Q2 FY '23. This is an increase of around 5.8% YoY. Revenue from value-added products, including fat and fat based products grew by 13.1% YoY to INR 1,953 million in Q2 FY '24 vis-a-vis INR 1,727 million in Q2 FY '23.

VAP including fat and fat products contributions stood at 26.1% of the overall dairy revenue during Q2 FY '24 as compared to 25.2% contribution of the overall dairy revenue during Q2 FY '23. Moving on to the financial highlights of the six months ended September 30, '23, the operational revenues was at INR 15,912 million in H1 FY'24 as compared to INR 14,123 million in H1 FY '23, registering a growth of 12.7% YoY.

The company's domestic business grew by 13.7% YoY to INR 14,782 million, whereas international business revenues stood at INR 1,127 million in H1FY'24. EBITDA grew by 25.6% YoY to INR 1,306 million in H1 FY '24. EBITDA margins have expanded by around 84 bps YoY to 8.2% owing to lower raw material prices and other expenses. However, employee expenses grew up a bit more.

Profit after tax grew by 22.1% YoY at INR 786 million in H1 FY '24. PAT margins grew at 4.9% in H1 FY'24. EPS for the H1 FY'24 stood at INR 13.09 as compared to INR 10.73 in the H1 FY'23.

Now, talking about the operational highlights of the six months ended, average milk procurement during half year FY '24 was 16.4 lakh liters per day as compared to 14.5 lakh liters per day in H1 FY '23. This is registering a growth of 13.1% year-on-year. Average milk sales during half year FY '24 was at 11 lakh liters per day as compared to 10.7 lakh liters per day in half year FY '23 registering a 2.6% YoY growth.

Curd sales during FY '24 were at 374.2 metric tons per day as compared to 359.0 metric tons per day in H1 FY'23, increasing by 4.2% YoY. Revenue from value-added products, including fat and fat-based products, grew by 13% YoY to INR 4,539 million in H1 FY '24, vis-a-vis INR 4,017 in H1 FY '23.

VAP, including fat and fat-based products, contribution stood at 29.2% of the overall daily revenue during H1 FY'24 as compared to 29% contribution of the overall daily revenue during H1 FY'23. The company is poised for delivering long term sustainable growth based on a robust



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business model, state of the art plans, diversified product portfolio and a strong balance sheet with net debt free status coupled with an adequate cash balance for organic and inorganic growth.

Lastly, my sincere gratitude to our esteemed stakeholders for their continual trust in the Dodla Dairy vision. We continue to strengthen our government's framework through the trust in ESG practices. The Dodla Dairy team will remain committed to support its dairy farmers' network and fulfill the consumer health and nutrition needs through our milk and raw products.

Now with this, I would like to hand over to our CEO, Mr. B.V.K. Reddy, who will give you some more information.

**B.V.K. Reddy:**

Thank you so much, Mr. Sunil sir. Very good morning to all the participants. We have concluded a healthy quarter with revenue growth and strong key performance indicators as stated earlier. We are continuously enhancing our footprints, strengthening our our pan-India stance. As of 30th September, '23, we have procured milk from around 1.4 lakh dairy farmers daily, of which 89% are provided with a regular direct payment in bank accounts.

Our direct procurement model has further strengthened, wherein we are buying almost all the milk directly from the farmers across more than 8,500 villages. As compared resulting in cost saving and establishment of deep rooted relationship with them. Dodla Dairy also have a diligent support in the agriculture community and dairy industry.

Orgafeed sells cattle feed directly to the farmers, towards procurement network, thereby strengthening relationship with the farmers by optimizing livestock health and enhancing productivity. Orga feed revenue stood INR38 crores in H1 '24 with EBITDA of approximately INR3 crores during the same period.

In terms of our presence, we serve 13 states in India supported by 15 processing plants with nearly 22 lakh liters per day capacity. We currently have 135 processing plants as of September '23. We have 631 Dodla retail parlours. We also have a strong network of 2,000 plus milk and milk distributor channels. We have around 2,700 agents network that are all established in many areas of the country.

Dodla Dairy looks forward to strengthen its grass to class business model layered with backward as well as a forward integration. Our presence in the entire dairy value chain including research, procurement and storage, processing distribution and cattle feed amplifies the management clear focus on the long term business region.

Additionally, the company aims to enhance operational efficiencies with automation, digitalization, initiatives and increases distribution networks, thereby delivering sustainable value to our esteemed stakeholders. That concludes our update on strategy, which we believe has been a positive in long term statistics. With that being said, now I would like to open the floor to the questions. Thank you.



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**Moderator:** Thank you very much, Sir. We will now begin the question-and-answer session. We'll take the first question from the line of Aditya from Securities Investment Management Company. Please go ahead.

**Aditya:** Thanks for the opportunity. So my first question is on our revenue growth. So our revenues have increased by around 10% YoY and I believe most of our revenue growth would have come from price hikes taken in the last three quarters to four quarters. So if you could just talk about why the volume growth has been weak in this quarter, especially in liquid milk? And how do you see the volume growth going forward?

**Sunil Reddy:** So Aditya, thank you very much for joining in. Predominantly, what happened was I think in Karnataka specifically, we have taken more of rates hike which happened in the last couple of quarters and due to which there was a certain amount of correction that had to happen because of the time lag by the time we increased and the cooperatives have increased. I think therefore there was a little drop in volumes that happened. That is one of the reasons.

The second reason is also I think more of the unseasonal rains coming in at odd hours, odd times and other issues which also caused a little drop in volumes. And the third is as usual is the stagflation that has been happening in terms of the volumes in each pack that have been reduced by all of us in terms of price versus pack sizes. These three was the reason for the milk volumes to come down.

I think going forward, we are seeing a slight improvement happening. I think by the fourth quarter it should be back to normal growth rates as we have been having earlier. So that is the only reason and we are confident that it will improve and come back to normal sales.

**Aditya:** Got it, Sir. And secondly, there has been a huge jump in our inventory. So Dodla as a company, we generally don't keep such high amounts of inventory in our books. So if you could just explain what has led to this big jump in inventory?

**Sunil Reddy:** Yes. So this time basically, like we are saying, we have this high flush and as you can look at it, our procurement volumes are far higher. This has also been a reason that we have been telling, I think in the last couple of quarters, we have been saying that we will keep increasing our procurement in the future that we will not be a net buyer, but we will become a net seller if required of commodities of powder to make our milk pricing more stable and keeping the quality of milk to be higher is what the call that we have made.

And added to that also the flush which was far better than what it normally used to be is the reason why the inventory buildup has happened. And I think this inventory buildup will be there now and again. Normally, we used to buy in the month of November, December or January, we would buy powder stocks that we required from outside.

Currently, we are not buying because we are making our own. It will look a little earlier. I think by March it might be a little more, maybe INR 50 crores or INR 70 crores difference in inventory



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might happen because we are also increasing our procurement. But it will maintain status quo of what we normally maintain at the year end.

**Aditya:** Sir, just a follow-up. Sir, you mentioned that we are trying to get into more commodities. So but what is the thought process of getting into these commodity products because if the prices keep falling down, we would have to take inventory losses going forward?

**Sunil Reddy:** So, I am saying that we get into commodities. We are saying we are trying to match our procurement and sale because our sale output in terms of the solids and milk is higher than the input because now there is less buffalo milk and more cow milk. So, for balancing of that we are trying to balance it with our own milk rather than being dependent on third party milk or other sources of buying the powder as a commodity if required. So we are trying to now match it with our own milk. The little surpluses that we get can be sold as a commodity if we come to surplus.

**Aditya:** Sir, and my next question is regarding our Africa business. So if you could just talk about the trends in procurement pricings we are seeing in Africa? And is there any seasonality in the Africa business? So are Q1 and Q3 better quarters than the Q2 and Q4 quarters?

**Sunil Reddy:** BVK will answer that, sir. I mean, the question was saying, do the prices have any impact and is the seasonality in Africa, correct?

**Aditya:** Yes.

**B.V.K. Reddy:** Yes,. See, there is a seasonality in Africa also, but now Africa what is happening on and off, there is a permitting issue there between Uganda and Kenya. So because of that you will see some variation in the revenue growth.

**Aditya:** Sir, if I look at the margins, Q-o-Q the margins have dropped quite a bit.

**Sunil Reddy:** There's a seasonality, there also there's a flush and lean, sometimes in the lean season the purchase prices are, procurement prices are going up. So that time you'll see the low profitability and then subsequent quarters, again procurement prices are going down. Then one particular quarter you'll see a good profit. If you see the first quarter profitability is high, second quarter profitability is low and again third quarter it is already picked up, because of the seasonality.

**Aditya:** Got it. And sir when is the new Kenya plant expected to be commissioned?

**Sunil Reddy:** We will be able to start trial runs between December 2023 and January 2024. And then we will be, maybe commercial production will take it up in March 2024 or we will have to make a call once trial runs happen.

**Aditya:** Got it. So, the revenue will be flat for this year, if I compare to last year?

**Sunil Reddy:** Come again, sir?



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- Aditya:** The revenue for Africa business will be flat this year?
- Sunil Reddy:** In terms of revenue, it will be little flattish.
- Aditya:** And Sir, few book-keeping questions. Let me know the average procurement size and realization price for this quarter?
- B.V.K. Reddy:** Q2 FY24, the average procurement price was INR 38.3. The realization was INR 57.50.
- Sunil Reddy:** For India?
- B.V.K. Reddy:** For consolidated.
- Aditya:** Okay. And sir, what was the curd sales amount for this quarter in rupee terms?
- B.V.K. Reddy:** The Curd sales were at INR160 crores in Q2 FY'24.
- Aditya:** Okay. Sure sir, I'll come back in the queue. Thank you for answering the question.
- B.V.K. Reddy:** Thank you.
- Moderator:** Thank you. The next question is from the line of Mythili Balakrishnan from Alchemy. Please go ahead.
- Mythili Balakrishnan:** I want to get a sense of this INR15 crores investment that you are planning in Maharashtra. You know, what are we sort of, is it going to be a new processing plant and how to sort of think about it?
- Sunil Reddy:** So basically in Maharashtra, we are trying to look at it as Eastern Maharashtra and what we are proposing now is because it's only going to be, we are looking at the land to start with because only once we finalize the land, we will be able to get the actual sense of what is the cost and other elements that come into play.
- Regarding the rationale behind going to Maharashtra, BVK will explain it. See, already since two years, we are collecting milk from Maharashtra, mostly from Solapur district and already we are collecting 2.2 lakhs liters per day. And see, our target in couple of three years, our target is around 5 lakhs liters per day, so all the mostly it is coming from Hyderabad and further to Andhra plants.
- So we wanted to have an integrated plant for the surrounding Solapur district. So basically it will be a foray to Maharashtra and it will start with collecting milk there, condensing or making into powder and starting to sell also hopefully the products and milk in the future.
- Mythili Balakrishnan:** Got it. Any timelines that you have for getting the plant up and running here?





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- Sunil Reddy:** I think we should look at around a two year timeline, from current year, from current date to a couple of years. It should be up and running.
- Mythili Balakrishnan:** Got it. And I just wanted to confirm my understanding, the milk procurement price is INR38.3 and the sale price is INR57.5, right?
- Sunil Reddy:** That is from consolidated. Yes if you take only from India, it will be INR39, procurement price. And sale price would be INR57.5.
- Mythili Balakrishnan:** Got it. Just wanted to get a bit of understanding about the sustainability of the same because now the spread between this selling and procurement prices INR18 to INR19-odd and just wanted to get a sense of is this something that can be sustained or we should expect it to sort of come off a little going ahead?
- Sunil Reddy:** I think it will sustain or improve for a bit even in the current quarter or the coming quarter it should be way better because as we are saying, first season, we don't anticipate increase in procurement prices going up, rather they might come down, come off a little bit and help in margin improvement a bit.
- Also the following fourth quarter, we shouldn't see much of a change because I think the volume of milk that is there coming down won't be that much of a dramatic drop in it. That will be compensated by the weather improving and our sales volumes also picking up. So we don't see it coming down. Maybe we'll see a better improvement rather than coming down.
- Mythili Balakrishnan:** Okay, thanks. Thanks a lot. That's all from my side.
- Moderator:** Thank you. The next question is from the line of Himanshu Nayyar from Systematix. Please go ahead.
- Himanshu Nayyar:** Yes, thanks. Hi, good morning, sir, and congratulations on a good performance. Sir, to start with, I mean, a very commendable margin performance from you guys. And you are saying that procurement prices can come off further and the fact that we have a lot of inventory given the procurement that we have done aggressively. So what's your margin outlook in the near term? Do you think we can get close to double digit margins next quarter or the next couple of quarters?
- Sunil Reddy:** For the quarter, I think we can look at the double digit -- the coming quarter can come to the double digit margin. And also going forward, I think we can try to be closer to them, right, between the 9% to the 10% should not be much of an issue. Also the advantage we will have is because the inventory that we will be holding will be at cost. I think when we start consuming the inventory in the future, it also should help us a bit because of the actual consumption cost and this will be at a lower price when we take it at manufacturing cost. I think we will have a good runway in the short term regarding profitability.



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**Himanshu Nayyar:** Got it. And secondly, on the cattle feed plant that we have recently commissioned, by when do you see that sort of scaling up to a full capacity and the sort of margins that that can deliver for us?

**Sunil Reddy:** So, BVK will take the question.

**B.V.K. Reddy:** We have commissioned just in September, and only there's a new plan. So, already now, slightly we're producing, but maybe it will take, see, third quarter, it will take, maybe it will, see, cut down the numbers only from first quarter.

**Sunil Reddy:** And it will help us improve also. Suppose if we are doing average around 2,000 tons, we think we will at least be able to add another 1,000 tons, 1,500 tons from the new plant coming in. And once it stabilizes, we will take a call from the next year on.

**Himanshu Nayyar:** Got it. And sir, one more point on the margins, the final one, would be, I mean, this Kenya plant starting up and this cattle feed plant also beginning, I think in the initial phase, do you think it will put some sort of pressure on our consolidated margins?

**Sunil Reddy:** I don't think so because basically these plants which are operating, they will not operate as much as in a negative. Once they start operating, they will all turn to be positive, because at the EBITDA level at least, because basically whatever we are buying and selling will be positive at the EBITDA level, maybe a little bit thanks to more of depreciation and there might be overall impact at the PAT level marginally, but not majorly at the EBITDA levels.

**B.V.K. Reddy:** Yes, if you take feed, already we are getting, third-party manufacturing that will be discontinuing. So, with the commissioning of new plant. So, I don't think feed will have any negative impact on the profitability.

**Himanshu Nayyar:** Got it, sir. And final question on the capex side, have we decided on a number both for this year and the next given that we are now looking at organic expansion in Maharashtra? So anything which you can sort of talk about in those aspect.

**Sunil Reddy:** So Himanshu, the regular capex like we are talking is on track which we are doing, which we are talking about the, we have done up to now around INR 40 crores in terms of chilling centers, addition capacity and all that and we had budgeted around for the year was around INR 109 crores, which we will be spending as we go forward.

But this is not considering the new plant, that's the reason, we are taking permission from our Board, first to finalize on the land and then we will be coming out with larger organic plant there. So for the larger organic plant also, it won't be much in terms of capex, it cannot be huge, I guess maybe, I don't know yet, but some numbers, maybe in the INR 100 crores to INR 150 crores range.



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We are planning for a little bigger capacity, so definitely because we need at least minimum 50 acres land what we are looking. So, we don't know the exact prices, land prices. So, approximately we have taken a INR15 crores approval from the Board so that we can acquire enough land. In future, we can have up to 10 lakh capacity per plant also.

**Himanshu Nayar:**

Got it, sir. That's it from me, sir. Thank you. Thanks and all the best.

**Sunil Reddy:**

Thank you.

**Moderator:**

Thank you. The next question is from the line of Resha Mehta from GreenEdge Wealth Services. Please go ahead.

**Resha Mehta:**

Yes, thanks for the opportunity and congratulations on a very good margin expansion. So the first one is just a clarification on the inventory levels, right? So is this now a conscious choice? Building up so much inventory, was this a conscious choice? And also, did you just happen to say that by the year end, our inventory days numbers would continue to be at the historic levels of let's say around 18 days to 20 days, or would we see a surge in inventory days or the inventory levels going forward structurally?

**Sunil Reddy:**

This will be only just 20 days, might go up to 25 days or 30 days, ma'am, because like you said also, it is a flush that has happened and the more of you are saying, we are procuring more milk and keeping up with our thinking, like you were saying earlier that, we will not be buyers in future, we might become next sellers.

So by the time we adjust, it cannot be a precise match. So, these numbers will largely remain as the previous years, maybe with the differential of some INR 30 crores - INR40 crores plus or minus, depending on the flush, if it will continue for a couple of months more or it will be where it is now.

**Resha Mehta:**

And on the growth for H2, how is the growth looking like? So are we still expecting to clock a double digit kind of a growth?

**Sunil Reddy:**

Yes, revenue wise, we will continue with the double digit kind of growth. We also have seen, because again I guess once Jan, Feb comes into play, the volumes of the seasonality come into play also and then it constantly go forward.

**Resha Mehta:**

Right. And lastly on the cattle feed business, if you could just comment on how the cattle feed pricing is shaping up and hence how the margins are expected to shape up. Any correction in the cattle feed prices or are they still stable?

**Sunil Reddy:**

So basically I will just give you an overall brief and Murali will give you the specific numbers of cattle feed. So, we think that, maybe in the next year it will help us a little more in terms of volume but as because of some capacity that we have taken up as an expansion is almost 5x what



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we already have. So, it will take a little more longer to take a optimal uses. But in specifics, we do think that, it will be more than what we have done earlier. So, Murali, we will give it specific.

**Murali Raju:** We have done INR 20 crores of business in this quarter when you compare with last quarter, that includes 13% of the growth we had. We had EBITDA also, we have grown. And comes to the percent relation, we are at 24.70%, against of 24.93%. So, so, there is a 3% of growth, we had done. And raw material price is INR 21 Crore in this quarter

**Sunil Reddy:** So we don't see raw material prices jumping up a lot.

**Murali Raju:** Not much, only a minor jump.

**Sunil Reddy:** Minor jump and which we are able to pass on to the farmer and keep our margin profile.

**Resha Mehta:** Right. Okay, all right. Thank you. All the best.

**Sunil Reddy:** Thank you.

**Moderator:** Thank you. The next question is from the line of Resham Jain from DSP Asset Managers. Please go ahead.

**Resham Jain:** Yes, hi. Good morning, team. So I have two questions. The first one is more in terms of medium term. Last two years, we have seen a significant increase in the milk prices and obviously, we had COVID-related issues and because of that the bovine population itself actually it came down. So now with milk prices being at an elevated level, how do you see the overall bovine population growing and how should one look at the supply demand situation over the next, let's say, one years to two years?

**Sunil Reddy:** The supply will keep improving. So the overall thing, thankfully, whatever COVID we have now increased selling prices to the consumer and also passing on the same benefit to the farmer. So with the farmer getting a better realization now, we hope that the productivity will continue and it will be at least maintained or go forward and improve as it goes forward in the medium terms.

I presume it will improve a little bit more because the same hike that, if you look at the procurement price hike of the 10% to 15% that has been passed on to the farmers, now it is bridging the gap more and more and making dairy farming more lucrative. So I'm hoping that, it will encourage dairy farming and improve their productivity levels also.

**Resham Jain:** So sir, when we look at last one years, 1.5 years, when we saw a continuous increase in the milk prices and margins were a little depressed, Structurally should one expect that next one years to two years given the supply demand scenario, a margin should not go back to those levels what we have seen in FY '23?



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**Sunil Reddy:** I don't think so, sir. It will maintain the margin profile in terms of the percentages, we have to look at it, but from an absolute number point of view, it is going to be a call that the companies have to make. If we want to be a little more aggressive in spending in terms of getting more market share, at a gross margin level, we won't see any difference. But at an operating level, depending on how much money that we're churning, we might take a call a little more here and there. But gross margins, we'll continue to maintain.

**Resham Jain:** Okay, understood. And sir, my last question is on the overall capex. This year also, we have close to INR109 odd crores capex, which is almost 50% or less than 50% of our cash generation, which we are doing for the year. And we have almost INR350 crores of cash as well. So how are we thinking in terms of incremental capex or capital allocation? Are we thinking about more like kind of acceleration in terms of growth plans or how do you think about cash going forward?

**Sunil Reddy:** Actually we will be looking at acceleration of growth plans at least for the short term, so for the next couple of years, like you were saying earlier regarding the Maharashtra unit that we are deploying and going into larger volumes of sales. We will be looking at it only from a deployment from acceleration point of view of sale.

**Resham Jain:** Okay, great, sir. Thank you very much and all the best.

**Sunil Reddy:** Thank you, Resham, sir.

**Moderator:** Thank you. The next question is from the line of Suruchi Parmar from NX Wealth Management. Please go ahead.

**Suruchi Parmar:** Hello, good morning.

**Sunil Reddy:** Good morning, Suruchi.

**Suruchi Parmar:** Sir, I want to understand on this Orgafeed, where we have, I believe, expanded the capacity from around existing capacity to 4x or 5x. So what is the outlook on here? Currently, we are doing some around INR50 crores odd of revenue?

**Sunil Reddy:** Yes, sir. So basically, if we look at it on a quantitative point of view, we were doing earlier 2,000 tons and the new plan that we have put up will be for around 10,000 tons of additional capacity that we will be adding. In the current year, which we are, the remaining part of the year, which we are looking at, we will start using maybe 10%- 15% of the capacity as we go forward.

But in another couple of years, we should be able to scale up to almost 30%- 40% of the capacity utilization as we go forward because as we are right now catering only to a smaller portion of our farmers, then if we actually take it and increase it and give it to the other farmers, we will be able to achieve it. So that is the reason, we have also taken a larger capacity.



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- B.V.K Reddy:** Yes, roughly about, we have 1,40,000 farmers right now, who are sowing milk to us and now, we are catering feed for only 30,000 farmers. So since the new feed plant is commenced, now slowly now see that, the farmer we are increasing, people who are taking our feed.
- Suruchi Parmar:** Okay, understood. But follow up on this, we have expanded the capacity to 4x or 5x something, but still we are saying in two years only, we will be able to utilize the capacity to 30% that?
- Sunil Reddy:** Obviously, we have been conservative on saying 30% - 40%, but I am sure, it can also do much better. We are being more on the conservative side.
- Suruchi Parmar:** Okay. The next question on the international business. Our South Africa, Kenya, Uganda business, which is around a single digit of overall consolidated revenue around 7% to 10% something. So what is the outlook and growth vision here? Will this business become a 20%-25% in next three years or something or this size will remain same?
- Sunil Reddy:** So on a proportion, it will grow but it will remain same because now, when we are looking at India growth coming up and what we are growing, initially now we have this hiccup between the cross border of what the countries have. But once we start our own production in Kenya, we will get improved volumes. But because of the overall structure, we will continue to grow in proportionality as what we are growing with India. We will maintain the same proportionality. As an absolute, it will grow, but as a percentage, it might remain the same.
- Suruchi Parmar:** Okay. So any further investment on capex any thoughts for international business in the next two years- three years, Uganda and Kenya?
- Sunil Reddy:** What we have in Kenya, we have to basically streamline the Kenyan operation more. Nothing much at the moment.
- Suruchi Parmar:** Okay. And the next question on value-added products. So, around our value-added product share is around 26% to 27%. And what I remember from last call, you said 100 bps incremental possible going forward. So just want to understand, other than curd in the rest of the other value-added product like ice cream, ghee, paneer or something are our business share or volume share is very much low. So what is our thought process and strategy here to grow the value-added business as at a much higher rate?
- Sunil Reddy:** So basically, our value-added business, when we look at it, in fact, we've done 100 bps better than if I remove the fat. Fat was earlier 2% and then it dropped to 1% now. And whereas our value-added, other value-added VAPs actually have increased from 3% to 4%. It is because of the drop in the fat sale that we had that it doesn't show up much.
- But again, as I keep saying, we will keep pursuing our VAP increase in terms of our ice cream, flavored milk and paneer and other products that we are doing. But as a market itself compared to milk, these products are much smaller. So in terms of size and scale, when you look at it as



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the overall bucket. It will still look only at growing at that one or two basis points, but that will be a substantial growth when you look from a category point of view.

**Suruchi Parmar:** Okay. And how much market share we have in Karnataka? Because Karnataka, I believe, Nandini has the dominant market share.

**Sunil Reddy:** Yes, Nandini has the dominant market share, but we are, I think, the leaders in Karnataka. I think these are estimates according to us, right? And we assume that if Nandini is doing around 50 lakh liters order milk, but now days they doing 5 lakh odd liters. So we will be around 8%, 9% of market share in Karnataka.

**Suruchi Parmar:** Okay. and see the vision in Maharashtra, just to understand how much capex what is a size of business we are establishing here and further on procurement side, how we will be able to get the milks of the farmers because those farmers will already be supplying to somebody else. So can you just give some vision on the market?

**Sunil Reddy:** So basically if you look at it in the past year or two itself we have been able to get 2 lakh liters and in fact, we have actually slowed down last year because when Maharashtra prices were higher, we were trying to do balancing of getting milk from other areas and doing it. Basically what happens is most of us when we go to Maharashtra for procurement, we are B to C companies, right. So we do not dramatically move up in pricing. There are a lot of other players in Maharashtra who are commodity driven and if commodity prices tank, they cannot afford to give higher prices to the farmers, so they also will bring down the prices.

We being more stable with our pricing, we presume that the farmers come to us and also our processing systems, we have developed over a period of time, are also very helpful to the farmers. For example, like we keep saying that we are going direct to the farmers, making payment into the farmers, trying to go more and trying to develop village level, which means a lot of other activities that we do, including cattle feed or other health services related is the reason why we get more farmers to our side.

**Suruchi Parmar:** But are we putting a plant here in Maharashtra and doing some capex?

**Sunil Reddy:** Yes, that's what we have announced that we will be buying the land first to identify where we are and then we will be building a plant. So we'll start with the plant which will be there for helping the product move to milk and milk products to move for our markets in Andhra and Telangana where we are operating. But in the longer term, yes, this will be the initial foray that we are doing into Maharashtra.

**Suruchi Parmar:** So we will be selling in Maharashtra with the Dodla brand. Correct?

**Sunil Reddy:** The Dodla brand, not immediately once because the plant has to come into place and then we will start doing. We are already doing in the border town, we sell a little bit, but in the future, because we will have to enter other states also, it will be there.



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- Suruchi Parmar:** So it will be around two years' time? It will be around two three years timeline.
- Sunil Reddy:** At least two years timeline.
- Suruchi Parmar:** Okay. And what will be the size of the capex?
- Sunil Reddy:** Right now, we are not yet decided because once we finalize on the land, but like I said it will be at least INR100, INR150 crores or maybe a little more than INR150 crores of investment, sir.
- Suruchi Parmar:** Okay. And currently, we are net debt free balancing and we would be having around cash of around INR400 to INR500 crores. The number is correct?
- Sunil Reddy:** Maybe around, the INR 380 Crores with the next couple of years, whatever we are doing, yes. We will be around the INR 400 to 500 Crores. But I think once we start expanding more and more and our volumes are growing, like you've seen this year when you see our inventory going up, the cash can also be moved into the form of inventory as we go inside because overall 30 days, 40 days our size of operations also grow.
- Suruchi Parmar:** Okay, last question from my side, sir. What type of revenue growth we can envisage for next three to five years?
- Sunil Reddy:** Historically, we have been doing 15% to 20% kind of growth rates.
- Suruchi Parmar:** Okay, and what will be the margin? Will be able to sustainable double digit margin and will be able to maintain a ROCE of 20% type of number?
- Sunil Reddy:** We strive a lot to maintain those ROCE numbers. In fact, we're try to improve them because the cash on the balance sheet, it pulls it down a bit. But otherwise, the ROCE numbers, we try to keep going ahead with improving them.
- Suruchi Parmar:** Because last two years, the ROC is going down.
- Sunil Reddy:** Maybe as a percentage of double digit because dairy industry like you guys we're seeing last year was low, this year is high. But from an absolute number terminology point of view, we will continue to grow, sir at a double-digit pace, from absolute numbers.
- Suruchi Parmar:** Okay and margin guidance. It will be around 8% to 9% or will be able to achieve 10% plus?
- Sunil Reddy:** I always on the conservative side, sir rather take the first range of numbers that you said and deliver maybe the other numbers when it comes to the end of the year.
- Suruchi Parmar:** Okay, thank you for my side. Thank you, Sir. Thank you for great numbers. Thank you.
- Sunil Reddy:** All the best to you, Sir.





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- Moderator:** Thank you. The next question is from the line of Ramesh from Smart Investment Solutions. Please go ahead.
- Ramesh:** Hello, thanks for the opportunity. I just have a couple of questions. Yes, sir. So, what is the sale outlook? Actually, the previous guy asked. What is the sale outlook for the current year and next six months? How are we looking in the sale outlook?
- Sunil Reddy:** The sales we think, we will continue to maintain this 10% to 12% growth by value.
- Ramesh:** 10% to 12% value growth. And milk volume if I see it is almost stagnant compared to last year 10.9 million something and like 10.9 lakh liters and this year also 10.9 lakh liters in Q2. Was it because of industries stagnant or are there any other reasons?
- Sunil Reddy:** Basically, for all of us we have seen the same. I guess because overall when the price increases happened substantially and a couple of times increase decrease and certain, I think even small issues like if you take the Kavery dispute where for three four days of lack of volume sale, shutdown, monsoon weather which are a little adverse. But I think it will improve in the next couple of quarters.
- Ramesh:** Okay. Because I was recently listening to Heritage call also, they grew by 1% in their milk volumes. They were also commenting the same thing, like milk was stagnant. So is it because of geography mix, they were growing and we were not growing?
- Sunil Reddy:** I think both of us have also grown in the similar lines. All of us, I think including the other listed entities, most of us have grown in the similar growth lines.
- Ramesh:** Okay. And coming to your capex this Maharashtra plant, what are you going to set up? What will be the LPD capacity you are going to set up?
- Sunil Reddy:** I think we have not yet formed up things, but at least it will be looking at a 5 lakh liter per day as additional capacity with probability of going up to 10 lakhs because Maharashtra as a state has got tremendous potential in milk availability.
- Ramesh:** Okay. In Q2, did you have any bulk sale because most of the listed players in dairy, they were doing this bulk sale because of bulk prices tank. So did you do any bulk sales?
- Sunil Reddy:** We didn't do any bulk sales. It was all B2C.
- Ramesh:** Your peer decreased their inventory to the half and we increased by almost 100%. So is it a strategic call to increase our inventory for future or is it because of procurement flush? We are keeping up?
- Sunil Reddy:** No, it's been a strategic call, sir. If you look at our couple of earlier quarters, we said that we will continue to increase our procurement, that we will become only maybe net sellers but not net buyers. In keeping in view that strategic move is only what we are doing. So now we are



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going to be procuring a little bit more. But to time it exactly to market, procurements will be a little bit of a differential in time. But otherwise, we will continue to keep growing with our procurement and getting more milk into business also.

**Ramesh:** Okay. And coming to your gross margin, we grew by almost 4.2% compared to last quarter. Is it driven by procurement price or any other factor contributing to it?

**Sunil Reddy:** I think it's procuring by procurement price only. So not others will be marginal, but majorly procurement price.

**Ramesh:** Majorly procurement price. And my final question, did we reach our pre-covid levels in our mild volume sale—milk sale?

**Sunil Reddy:** I think, we've grown more than a pre-COVID level, sir. If I see first quarter and second quarter have the COVID level we are growing.

**Ramesh:** You've grown fast pre-COVID level. Can you help me out with the percentage how much we have grown this year?

**Sunil Reddy:** in terms of profitability or revenue, sir?

**Ramesh:** Revenue.

**Sunil Reddy:** Premium including

**Ramesh:** Revenue volume basically

**Sunil Reddy:** Revenue, we are at 57% in this quarter

**Ramesh:** Pre-COVID.

**Sunil Reddy:** Pre-COVID, we never had this quarter this much of revenue earlier. If we take 20 or 21 as pre-COVID level sir, I would take it. Let's say Q2 FY'21 was around INR460 crores and now FY'24 Q2 is around INR767 crores, sir at a consolidated level. And even the part we are at the highest consolidated quarter. We were at INR43 crores earlier the least, like what you said is Q2 of FY'21, that is a 42. So that we surpassed in this quarter in absolute amount of part.

**Ramesh:** Just a follow up question. I was asking about milk volume growth or milk sales growth.

**Sunil Reddy:** Milk sales growth also if I take Q2 FY21, we were at around 10.25 lakh liters and now we are at 14.15 lakh liters.

**Ramesh:** Okay, sir. Thank you.

**Moderator:** Thank you. The next question is from the line of Nilesh Patil from ICICI Securities. Please go ahead.



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- Nilesh Patil:** Yes, thanks for the opportunity. My question is about a small clarification that I require on the cattle feed prices. I think you said that the raw material prices are likely to remain stable and not improve materially. So, am I correct on that understanding?
- Sunil Reddy:** Yes, sir. We are assuming will remain stable. Procurement price is now slightly low only. It will remain same in the third quarter also.
- Nilesh Patil:** Yes, and on capex you said that till date we have done about INR 40 odd crores and what is the expectation for FY'24 on a full year basis?
- Sunil Reddy:** On a full year basis I think we will reach around INR60 to INR70 crores.
- Nilesh Patil:** That's it. Thank you.
- Moderator:** Thank you. The next question is from the line of Aditya from Securities Investment Management Company. Please go ahead.
- Aditya:** So my question was regarding our foray into Maharashtra. So if we just spoke on why have we chosen Maharashtra as a state to increase our procurement and what detail presence in other southern states or get into any other new states like Odisha. So if we just talk about why the industry dynamics or competition in Maharashtra as compared to other southern states?
- Sunil Reddy:** Now we have mostly we are collecting from Andhra Pradesh, Tamil Nadu and Karnataka. We are targeting Maharashtra as it is very closer to our Hyderabad plant approximately 500 kilometers. But whereas in Solapur it is only 400 km. So proximity wise, Maharashtra also is closer to our Kalaman Hyderabad plant.
- That is the major advantage operationally when we look at it initially it will be Solapur who are existing volume requirements and growth in the Telangana belts of operation. And as that stabilizes we will be looking more into the Maharashtra side of going towards more of the western region of Maharashtra. It will be more of a procurement thing game to start with. But with time it will also be a market sales game.
- Aditya:** Got it. And what is the competition or the number of players we have in Maharashtra as compared to Southern states and the presence of cooperatives in Maharashtra?
- Sunil Reddy:** Competition in all the states is almost equal to people changing in terms of the names. In Maharashtra, yes, there is a little more competition because you have the commodity players on one side, a lot of them. I don't think the cooperatives are that much there in Maharashtra compared to the private sector is larger than the cooperatives in Maharashtra. But also if you look at the volume of milk available in Maharashtra is much larger. So what volumes we are talking of will not be significant in terms of the overall state percentage market share that we are looking at.
- Aditya:** Got it sir. Thank you.



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**Moderator:** Thank you. As there are no further questions from the participants, I would now like to hand the conference over to Mr. Sunil Reddy for closing comments. Over to you, sir.

**Sunil Reddy:** So I would like to thank all the participants for joining the call and giving us the opportunity to present our numbers to all of you. As always, we will stand committed to our ESG practices and create value to all our stakeholders. And thank you very much and happy Dussera to all of you.

**Moderator:** Thank you, members of the management. Ladies and gentlemen, on behalf of ICICI Securities, that concludes this conference. We thank you for joining us and you may now disconnect your lines. Thank you.